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POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

POSTAL RATE AND FEE CHANGES, 1997

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REBUTTAL TESTIMONY
OF
RITA D. COHEN

ON BEHALF OF
ALLIANCE OF NONPROFIT MAILERS,
AMERICAN BUSINESS PRESS,
COALITION OF RELIGIOUS PRESS ASSOCIATIONS,
DOW JONES & COMPANY, INC.,
MAGAZINE PUBLISHERS OF AMERICA,
THE McGRAW-HILL COMPANIES, INC.,
NATIONAL NEWSPAPER ASSOCIATION,

AND
TIME WARNER INC.

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I. Autobiographical Sketch.

My name is Rita Dershowitz Cohen. I am Vice President for Economic and Legislative Analysis at the Magazine Publishers of America (MPA). I have been employed by MPA since 1995 and have represented MPA in postal proceedings since 1987. I have twenty-five years of experience in postal matters, having worked at both the Postal Rate Commission and the Postal Service in a variety of positions.

I filed direct testimony in this proceeding, presenting two alternative distributions of volume-variable mail processing costs for the Commission's consideration. A full description of my background and qualifications is contained in that testimony, filed as MPA-T-2.

II. Purpose and Scope and Summary of Conclusions.

This testimony rebuts the direct testimony of Stephen E. Sellick on behalf of United Parcel Service. UPS-T-2. Witness Sellick's proposed distribution of mail processing costs is not well founded and should not be used by the Commission.

- Witness Sellick's proposed distribution method (adopted from Postal Service witness Degen) cannot be used without also using witness Bradley's results.
- The real world of postal operations requires distribution of mail processing costs across MODS pools, not within them as proposed by witness Sellick (and Degen).
- Costs resulting from inefficiency should be distributed across MODS pools if they are to be distributed at all.

In this rebuttal testimony I review the important role of not-handling and mixed-mail costs in determining attributable costs of the classes and subclasses of mail. I next review what this record shows about not-handling and mixed-mail costs. I show that

witness Sellick did not undertake the necessary substantive analysis to evaluate Postal Service witness Degen's approach or to suggest alternatives. I review witness Sellick's treatment of not-handling and mixed-mail costs and show that it is inconsistent with witness Degen's analytical framework, which depends on witness Bradley's variabilities. In other words, the Commission cannot do what witness Sellick recommends because witness Degen's distributions depend on witness Bradley's attribution. I next describe a number of changes that witness Sellick failed to implement to correct inaccuracies in the distribution keys he adopts from Degen. I demonstrate that even if not-handling costs are incurred efficiently, they must be distributed across groupings of cost pools to be consistent with operational realities and witness Bradley's results. I show that if not-handling costs are incurred inefficiently, they must be distributed across all cost pools or treated as institutional and not distributed at all. Finally, I show that witness Sellick ignored differences in not-handling and mixed-mail costs across Cost Accounting Groups (CAGs) and basic functions, differences that demonstrate it is appropriate to distribute mail processing costs by CAG and basic function.

III. Large Not-Handling and Mixed-Mail Costs Play a Critical Role in Determining Attributable Costs.

Base-year not-handling costs in this case are $5.4 billion, and mixed-mail costs are an additional $1.5 billion. Together, they thus comprise nearly $7 billion, which is more than a billion dollars greater than total mail processing direct costs. To help put the magnitude of these costs in perspective, total not-handling and mixed-mail costs are well over 10 percent of the entire cost of the Postal Service, and volume-variable not-handling and mixed-mail costs are about 15 percent of total attributable costs. The Postal Service spends more money not-handling mail in mail processing operations than it does on any other cost segment except carrier street time. In fact, if the Postal Service could "spin off" just the not-handling and mixed-mail processing tasks to the private sector, the resulting corporation would rank 212 on the Fortune 500 list, several

places above Nike, Inc. and only a few places below Sun Microsystems. The resulting corporation would be 70 percent as large as Federal Express, which had revenues of $10.3 billion in 1996, and about one third the size of United Parcel Service, with revenues of $22.4 billion. If the "spin off" were a Government agency, its budget would exceed that of the State Department, at $5.1 billion, and the Environmental Protection Agency, at $6.3 billion.

The method of distributing this extremely large pool of costs is obviously important to all classes of mail, but it is critically important to the total volume-variable costs of small classes of mail like Priority, Periodicals, and Standard B. Unlike the larger classes, these small classes are enormously affected by a shift of several hundred million dollars of attributable costs. For example, UPS Witness Sellick attributes almost $250 million more in mail processing costs to Periodicals than I do; if his recommended distributions were accepted together with UPS witness Neels' recommended volume variability, the resulting attributable cost increase would result in an average rate increase for the Periodicals Regular Rate subclass of about 15 percent (about four times the average for all classes), even if coverage were set at 107 percent. In fact, witness Sellick's distributions combined with UPS witness Henderson's proposed coverages would result in a 25 percent rate increase for Periodicals. Witness Sellick also attributes $370 million more in mail processing costs to Priority than I do, more than double my attribution. It is obvious why UPS witness Sellick supports witness Degen's distributions while increasing witness Bradley's variability.[1]

IV. What This Record Shows and What Sellick Ignores About Not-Handling Costs.

In spite of the significance and magnitude of not-handling costs, the record in this case contains no evidence pertaining to the causality of these costs. There is no evidence

[1]UPS-T-2, Table 2; MPA-T-2, Exhibit MPA-2C; UPS-T-3, Exhibit UPS-T-3B.

either of their relationship to mail volume or of the reasons for their rapid growth. What the record does show is that not-handling time is unevenly distributed across operations and that one component of not-handling -- what has previously been called "overhead" -- is growing at an inexplicably rapid rate.[2] (See my direct testimony, MPA-T-2, and that of witness Stralberg, TW-T-1.) It also shows that not-handling costs as a percentage of total costs are disproportionately higher at operations where productivity is not measured (see MPA-T-2, Table 5).

The record also shows that not-handling time is unevenly distributed across distribution operations, sometimes in ways that defy explanation based on the nature of the operations. For example, in the MODS pool for sorting outside sacks mechanically, not-handling cost is 61 percent of the total cost, while for sorting parcels mechanically it is 42 percent. Although both percentages are alarmingly high, it is disturbing that not-handling is almost 50 percent higher in one mechanical sorting operation than in another. How can this be?

In manual operations, the disproportionate amounts of not-handling costs are similarly surprising and inexplicable. Not-handling time is 31 percent of total costs for manual letter sorting distribution while more than one-third higher, at 44 percent, for manual parcels. This puzzling disparity is also present in BMC operations. For the parcel sorting machine, not-handling is relatively low, at 19 percent (before reallocation of breaks). For the sack sorting machine, however, the comparable not-handling ratio is over 50 percent larger, at 30 percent.

Not only are the disparities between operations unexplained, but the absolute levels of not-handling costs are stunning. For example, not-handling costs are 63 percent of total platform costs at MODS facilities, which means that employees are handling mail

[2] Overhead has increased from 17.2 percent of total mail processing cost in1986 to 23.9 percent in 1996. Because this is the first case where the Postal Service has used this particular grouping of the not-handling category, I cannot quantify how fast it has been increasing.

pieces, items, or containers only about 1 of every 3 minutes. During cross-examination, the Postal Service suggested that not-handling might be a relatively large proportion of platform costs because of time spent going back to a truck to get the next pallet of mail to unload. However, the Postal Service, witness Sellick, and I are all at a loss to explain why employees should spend more time returning to the truck unladen than they spend unloading full pallets and containers and moving them across the platform.

In spite of these facts and the lack of evidence about causality, witness Sellick enthusiastically supports witness Degen's restriction of not-handling costs to distribution within narrowly defined cost pools. He applauds Degen's distribution because "it links the distribution of ... 'overhead' (not-handling mail) costs with the operational characteristics of mail processing."[3] Like Degen before him, Sellick simply assumes what is not the case – that it is the same thing to link a set of costs with a mail processing operation (in the sense that a statistical system records those costs under a particular operational heading) as it is to link costs with the operational characteristics of mail processing. Witness Sellick is apparently unaware of the operational linkages of the costs pools and that these linkages require cross-pool, rather than within-pool, cost distributions. As I discuss in sections VI and VII below, these linkages affect the distribution of mail processing costs in two ways: they imply (1) the need to incorporate differing variabilities into cost distributions and (2) the need to distribute costs over all the cost drivers for a cost pool. Finally, witness Sellick also seems unaware that inefficiency, which is one probable explanation for the level and growth of not-handling costs, is likely to require across-pool, rather than within-pool, distributions of not-handling costs. I discuss this in Section IX.

[3]Tr. 26/ 14163.

V. Developing or Evaluating a Proposed Cost Distribution Requires a Depth of Knowledge and Expertise Not Exhibited by Witness Sellick.

The cross-examination of witness Sellick confirmed that he understands little about mail processing functions and data systems or the changes in the Postal Service's operating conditions as mail processing has moved increasingly to an automated environment. Such understanding is a prerequisite for evaluating how to distribute not-handling and mixed-mail costs in light of their enormous growth relative to direct costs over the past ten years as a consequence of automation. Witness Sellick admitted on oral cross-examination that he does not know what specific functions employees perform while not-handling mail even to the extent of being able to name a few examples.[4] Nor was he conversant with the definitions of identical mail or mixed mail even at the most general level.[5] Witness Sellick was unable to name the types of containers the Postal Service uses or to say what subclasses they are used for, despite his written testimony that "different types of containers are used for different types of mail."[6] Notwithstanding the fact that he relied in his testimony on the Overhead and Subclass Cost Study prepared by Foster Associates Inc. in 1992, he did not know what general conclusions the study had reached, or whether the report was consistent with his testimony.[7] Perhaps even more troubling is that his testimony neglected to mention one of the study's most important conclusions: "Additional field operating data are necessary to determine the proper (causative) attribution of the break and subclass costs in question and those other costs which are presently attributed as mixed mail or overhead activities."[8] With respect to the MODS system, witness Sellick not only failed to examine witness Degen's grouping of MODS codes into cost pools, he did not know what types of mail would be processed at specific types of operations, how individual

[4]Tr. 26/14248.
[5]Tr. 26/14253-4.
[6]Tr. 26/14256.
[7]Ibid.
[8]Tr. 26/14256-8.

operations should be combined into cost pools, or whether witness Degen's combination of operations into cost pools made sense.[9]

Witness Sellick's lack of knowledge is disturbing, although not surprising, given his limited operational experience. Witness Stralberg and I, on the other hand, have *developed a depth of expertise from studying postal operations and costing systems for* twenty-five years.

Given his limited expertise, one might have hoped that witness Sellick would have undertaken at least some rudimentary analyses to verify that his proposals were well-grounded. Therefore it is surprising that, while admitting that the distribution assumptions that underlie his testimony are important, he made no attempt to test the validity of the assumptions.[10]

Further, witness Sellick appears to recognize that correct cost distribution should be based on the activities a clerk or mailhandler is performing rather than what MODS code he or she is clocked into.[11] Yet he concludes that the admission by witness Degen that employees are sometimes not clocked into the operation at which they are working is not important. He reaches this conclusion without any knowledge of how *often misclocking occurs.*[12]

VI. Witness Sellick Should Have Studied the Fundamental Issue: Can Witness Degen's Methodology Be Used Without Witness Bradley's Analytical Framework?

Witness Sellick admits in his testimony that he addresses only the subject covered by witness Degen: the distribution of mail processing costs. He assumes, however, that witness Degen's cost pool categorization is meaningful even if witness Bradley's

[9]Tr. 26/14262-3.
[10]Tr. 26/14241-2.
[11]Tr. 26/14202.

variability analysis is rejected. It is not clear why he feels no discomfort making this assumption since Sellick admitted during cross-examination that he wasn't sure which witness, Degen or Bradley, originated the cost pool framework.[13]

In fact, as stated by witness Bradley, Degen designated the cost pools.[14] Witness Degen did not, however, identify the cost drivers for the cost pools. The cost drivers were identified by witness Bradley.

Witness Sellick relies on witness Neels' rejection of witness Bradley's analysis and a return to the previously assumed variability levels for mail processing. It would appear, therefore, that witness Sellick is also rejecting witness Bradley's cost drivers, without which, witness Sellick lacks a foundation for his distribution.

There is another fundamental problem with witness Sellick's use of Degen's distribution keys while rejecting witness Bradley's variability results. Sellick does not appear to understand that witness Degen's distributions depend on witness Bradley's attribution framework on a number of levels, going beyond simply using Bradley's overall variability results. Witness Sellick does not take into account that Degen's approach to cost distribution is violated if all cost pools are assumed to have the same variability: differing variabilities between distribution and allied operations are fundamental to witness Degen's approach.

When witness Sellick rejected the overall level of variability found by witness Bradley, he ignored the inherent balance in the analysis between various operations and groups of operations, particularly between allied and distribution operations. This balance is integral to witness Degen's methodology. The average variability for distribution operations in witness Degen's approach is 83 percent, while the average variability for allied operations is only 71 percent. For BMCs, the difference is even more dramatic,

[12]Tr. 26/14245-6.
[13]Tr. 26/14261.

with distribution operations at 80 percent variability and allied operations at only 53 percent. This means when witness Degen performs his distribution, he distributes 85 cents of allied operations cost for each dollar of distribution operations costs. This pairing takes into account the support nature of allied operations and the interrelationships between the sets of operations. This point was described by witness Bradley: "Allied activities are the 'mortar' that binds the 'bricks' of the direct piece sorting activities. Because they are all manual activities and because of their role as facilitating activities, I would expect allied activities to have variabilities which are, on average, below direct piece sorting activities."[15]

This balance is a fundamental underpinning of witness Degen's approach. Despite the fact that witness Sellick claims to adopt witness Degen's methodology, he ignores the fact that using equal variabilities for the distribution and allied groupings of operations distorts witness Degen's implementation of operational interrelationships and places a disproportionate emphasis on the allied operations in the distribution of mail processing costs.

VII. After Mistakenly Assuming That He Could Use Degen's Methodology Without Bradley, Sellick Failed to Correct Degen's Distributions To Account for Cost Pool Interrelationships.

As I mentioned earlier, operational characteristics and interrelationships need to be reflected in mail processing cost distribution both by recognizing differing variabilities and by distributing costs over all the cost drivers for a cost pool. In adopting witness Degen's within cost pool distribution, witness Sellick ignored evidence on the multiple cost drivers found to be significant for both allied and distribution operations.

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[14]USPS-T-14 at 6.
[15]USPS-T-14 at 61-62.

Witness Sellick claims to have reviewed the testimonies of both witnesses Moden and Bradley.[16] Yet he stated on oral cross examination that he was not aware of any analyses as to how the costs in one cost pool vary because of what is happening in another cost pool. He admitted that such relationships are possible but said he "hadn't seen any analyses in that regard."[17] This admission is surprising given the numerous statements addressing this topic in the testimonies of witnesses Moden and Bradley. Both of these witnesses addressed the interrelationships between allied and distribution operations and among the automated, mechanized, and manual components of distribution operations.

With regard to the allied operations, in addition to his bricks and mortar analogy, witness Bradley noted: "Allied activities exist to support the direct piece sorting of mail and it is in this sense that they are 'allied' with direct activities."[18] Discussing the results of his analysis, witness Bradley stated: "All....piece-handling variables have explanatory power for the allied activities, revealing the general nature of these support activities."[19] Describing the platform operation as a gateway operation, Bradley explained that "breakdowns in that operation would have ripple effects throughout the rest of the night in terms of not getting the mail where it has to be to accomplish the sorting."[20]

Witness Moden also recognized the support nature of allied operations, stating: "Adding a sophisticated automated processing stream to existing mechanized and manual streams also required an increase in workhours for non-distribution activities, such as moving mail between operations, to handle the complex mail flows that resulted. Most support activities occur in the Allied Labor Operations - Platform,

[16]Tr. 26/14162.
[17]Tr. 26/14248-49.
[18]USPS-T-14 at 18.
[19]USPS-T-14 at 62.
[20]Tr. 11/ 5532-33.

Pouching, and Opening Units..."[21] Witness Moden also noted: "These operations act as a gateway through which mail for subsequent sorting operations must pass. It is critical to the success of the outgoing distribution operations that mail be processed .... as expeditiously as possible."[22]

Allied operations support the distribution operations. They prepare the mail for the distribution operations, move it between them, and then move it for dispatch to the next processing facility or to the carrier stations. Witness Bradley incorporated the support nature of the allied operations into his analysis in a fundamental way: he used workload measures from the distribution operations as the cost drivers for the allied operations. All of the distribution workload measures are significant, showing that the time spent in allied operations is a function of piece handlings in the distribution operations. This operational interconnection and the significance of cost drivers are reasons why witness Sellick should have distributed mixed-mail and not-handling costs at allied operations across distribution operations.

Just as allied operations are linked to each other and to the distribution operations, so, too, are the distribution operations linked to each other. Manual sorting, for example, is necessary when automated or mechanized sorting operations are overwhelmed by mail which must meet critical dispatch schedules. As critical dispatch times approach, a piece of mail may receive a manual, mechanized, or an automated sort, depending on mail volumes and the availability of machines. As witness Bradley stated: "In an automated environment, manual activities will serve as the backstop technology and these activities will be staffed so that they are available to sort the mail that cannot be finalized on automated equipment."[23]

[21]USPS-T-4 at 21-22.
[22]USPS-T-4 at 22.
[23]USPS-T-14 at 58.

Witness Moden also recognized the interactions between manual, mechanized, and automated operations, noting the shifting of mail to higher levels of mechanization and automation and the dependence of processing method on volume levels and dispatch schedules.[24] Thus, treating the manual, mechanized, and automated cost pools in isolation makes no sense. Witness Bradley recognizes this in his analysis, with the variability of distribution operations dependent on the manual ratio (the ratio of manual piece handlings to the sum of manual, automated, and mechanized piece handlings for both letters and flats). Both witness Degen, who intended to be consistent with witness Bradley, and witness Sellick, who intended to be consistent with witness Degen, should have distributed mixed-mail and not-handling costs across more aggregated groupings of distribution operations.

VIII. *Incorporating Cost Pool Interrelationships Into Witness Sellick's Distribution* Would Lead To Very Different Results

The interrelationships between allied and distribution operations and among manual, mechanized, and automated operations are well-documented. At a minimum, witness Sellick should have distributed the costs for allied operations across cost pools and the costs for distribution operations across manual, mechanized, and automated cost pools. Had witness Sellick done this, his proposed distributions would be very different.

To illustrate the potential impact on his proposed distribution, I performed some rudimentary calculations comparing the distribution of $2.2 billion of mixed-mail and not-handling costs at allied operations under two different distribution assumptions: (1) costs are distributed on the basis of direct tally costs only at allied operations, and (2) costs are distributed on the basis of direct tally costs at all operations. The differences between these two distributions are very significant, particularly for Periodicals, Priority, and Standard B.

[24] USPS-T-4 at 4-5, 21.

Distributing allied costs on the basis of all direct tallies, rather than just direct tallies at allied operations, would decrease the cost distributed to Periodicals and Priority Mail by about forty percent and the cost distributed to Standard B by nearly fifty percent. The impact for the larger classes is much less (See Table 1 for more detail). It is apparent that witness Sellick's assumption that there is no interconnection between allied operations and the distribution operations, which the allied operations support, has a substantial impact on his proposed distribution, significantly overstating the costs for Priority Mail, Periodicals, and Standard B mail.

Table 1. Comparison of Distributions of Mixed and Not-Handling Costs *for Allied Operations*[25]

Class	Allied Distribution on Allied Cost Pools	Allied Distribution Across All Cost	Difference	
			Dollar	Percent
First-Class	$1,242,176	$1,370,962	$128,786	10.4%
Priority	$162,808	$95,142	-$67,666	-41.6%
Express	$15,452	$19,059	$3,607	23.3%
Periodicals	$177,956	$107,838	-$70,119	-39.4%
Standard A	$470,655	$442,952	-$27,703	-5.9%
Standard B	$52,994	$27,340	-$25,654	-48.4%

Witness Sellick admitted that an accurate measurement of costs is important.[26] He also admitted that choosing a distribution methodology requires an evaluation of the

[25] Calculated from data in USPS-LR-23 and USPS-LR-146.
[26] Tr. 26/14239.

available alternatives.[27] Yet Sellick did not look at alternatives that use more appropriate cost drivers for allied operations. Furthermore, witness Sellick claims that: "The importance of assumptions which underlie an analysis depends on the impact a change in the assumptions would have on the final results."[28] It would appear that assumptions are very important in this case. Yet witness Sellick admits that he did not look at the assumptions in an "analytical way."[29]

IX. Inefficiency and Slack Time Require Cross Pool Distributions if Inefficient Costs are Distributed at All.

One of the key questions in this case and in preceding cases has been whether the rapid growth in not-handling costs is due to inefficiency in postal operations. Yet witness Sellick did not bother to examine this question,[30] although there is ample evidence of inefficiency in Postal operations in the record of this case (see my direct testimony, MPA-T-2).

In an audit of allied workhours, the Postal Inspection Service found that postal managers paid "little attention... to LDC 17 [opening units] components" as long as they were "making" the total budget.[31] One cause of this management inattention is that the Postal Service collects no piece-handling data for allied operations and consequently cannot calculate productivity for these operations. Assigning slack labor to allied operations therefore increases measured productivity at distribution operations while not decreasing measured productivity at any other operation. For this reason, supervisors "had employees clock into a non-distribution operation at the beginning of their tour until the supervisor made individual work assignments."[32] Further, when

[27]Ibid.
[28]Tr. 26/14195.
[29]Tr. 26/14241.
[30]Tr. 26/14238-9.
[31]USPS-LR-H-236. "National Coordination Audit: Allied Workhours" at 10.
[32]Id. at 19.

managers reassigned these employees to distribution operations, on occasion they never clocked into the distribution operations. Management's inattention has led to high costs in allied operations. Specifically, by increasing management attention, the audit found that the Postal Service could reduce opening unit workhours by more than ten percent.[33]

The audit findings suggest that at least a portion of not-handling costs at allied operations is not caused by direct piece handlings in any operations. Rather, this portion of not-handling costs at allied operations is due to the fact that some employees have nothing to do at certain times during a shift. Because these costs are just as causally unrelated to piece handlings in distribution operations as to piece handlings in allied operations, an appropriate distribution method should distribute these not-handling costs, if at all, in proportion to direct and mixed-mail costs across all operations.

X. Witness Sellick Failed to Consider that Differences Between CAGs and Basic Functions Suggest It Is Appropriate to Distribute Mixed-Mail and Not-Handling Costs Within CAG and Basic Function.

Part of witness Sellick's rationale for distributing mixed-mail and not-handling costs within cost pools is based on the fact that there are differences in the levels of these costs among cost pools. As witness Sellick stated: "Some of the MODS pools constructed by witness Degen demonstrate different levels of not-handling costs with those pools. It would be an important factor to recognize that, and to ignore that, I believe would be incorrect."[34]

There is also clear evidence on the record that there are differences in levels of mixed-mail and not-handling costs among CAGs and basic functions, but witness Sellick

[33]Id. at 10.
[34]See Tr. 26/14244.

ignored these differences. This is curious because one can distribute costs within CAG and basic function while avoiding the severe distortions in witness Degen's method (and now witness Sellick's) that result from ignoring many relevant cross-pool cost relationships.[35] No severe distortions result from distributing costs within CAG and basic function because CAGs and basic functions are cleaner separations; individuals do not often move between CAGs or between basic functions during a work shift.[36]

As shown by witness Stralberg, there is wide variation in the percentage of mixed-mail costs in different CAGs, from a low of 4 percent of total costs in the smallest CAG to 13 percent in the largest, CAG A. There are similar variations in the level of not-handling costs, from a low of 12 percent of total costs in the smallest CAG to 39 percent in the largest, a difference of more than 300 percent. Looking at individual categories of not-handling costs, costs associated with single or mixed shapes (activity codes 5610-5750) are 9 percent of total costs at MODS CAG B-D offices but almost 100 percent larger in CAG A offices at 17 percent of total costs.[37]

Similarly, there are also large differences in not-handling and mixed-mail costs with respect to basic function at MODS facilities. Not-handling costs comprise 23.5 percent of costs for the incoming basic function, 27.5 percent for outgoing, and nearly fifty percent for transit. Also, mixed-mail costs are 14.2 percent of costs for the incoming basic function, 16.3 percent for outgoing, and 22.8 percent for transit.[38]

XI. Conclusion

This rebuttal testimony shows that not-handling and mixed-mail costs are large and extremely important in determining the attributable costs of the classes and subclasses of mail. It also shows there is little evidence on the record explaining the cause of the

[35]Tr. 26/13874.
[36]Tr. 26/13826.
[37]Tr. 26/13883.

not-handling costs, their magnitude and growth, or their distribution among the various mail processing operations. My testimony also shows that UPS witness Sellick has uncritically accepted USPS witness Degen's distribution of these costs without either performing any independent analysis or having the knowledge or background to do so.

Witness Sellick was incorrect in assuming that he could adopt witness Degen's approach while rejecting witness Bradley's analysis. Furthermore, witness Sellick *ignored operational reality by confining cost distribution within cost pools, despite* clearly demonstrated dependencies between allied and distribution operations.

This testimony and my previous testimony in this case, MPA-T-2, show that both analytical and statistical considerations dictate against adoption of witness Sellick's proposal. In contrast, the distribution advocated by witness Stralberg and me are consistent with operational reality, are more reliable statistically, and limit departures from past practice in light of uncertainty as to the use of not-handling costs and their appropriate distribution.

Witness Sellick's proposed distribution of mail processing costs is not well founded and should not be used by the Commission.

[38]Calculated from data in USPS-LR-H-23.

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the rules of practice.

James R. Cregan

Washington, D.C.
March 9, 1998